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# **National Intelligence Bulletin**

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**No 638**



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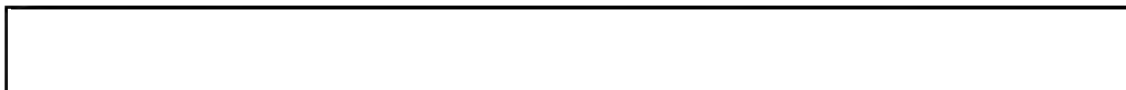
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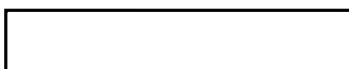
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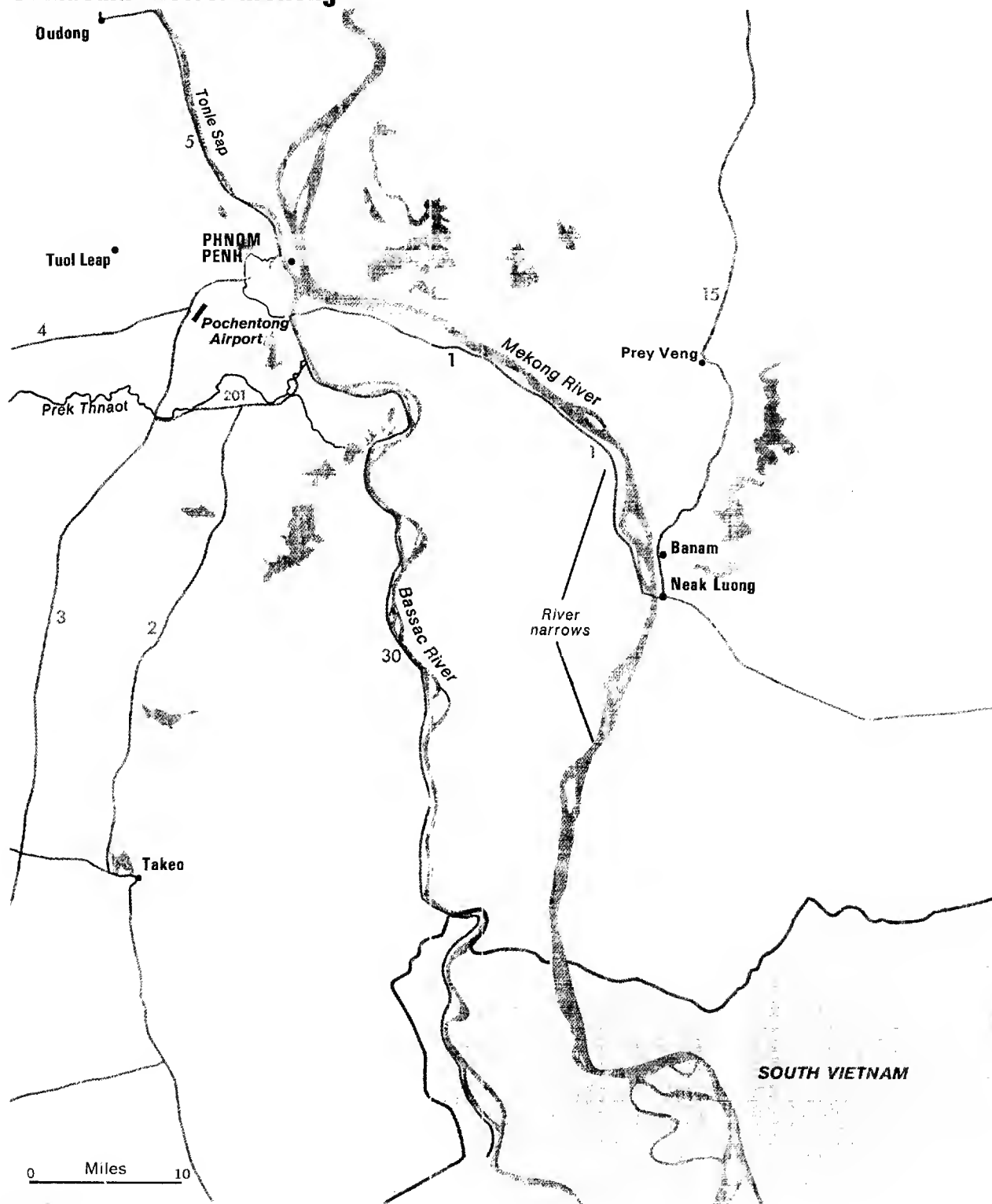
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# **Cambodia: Lower Mekong**



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CAMBODIA

Government ground forces with heavy air support retook Tuol Leap on March 15. Cambodian army units reportedly inflicted heavy casualties on insurgent forces and seized several 107-mm. rockets during the operation. Meanwhile, communist rocket and artillery attacks against Pochentong airport decreased; only nine 107-mm. rockets struck the airfield Sunday, and no 105-mm. artillery fire was reported. US airlift operations are continuing.

Government units just to the northeast of Tuol Leap have been forced to abandon several positions under heavy pressure, withdrawing to within three miles of the airfield. Some units committed to the Tuol Leap operation are expected to react to help blunt this new threat. The situation in the 7th Division area along Route 51 north of the town remains serious. Government efforts to close a one-mile gap in the defenses have been un-

availing.

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Phnom Penh has been subjected to a flurry of rocket attacks over the weekend. Some 22 107-mm. rockets landed in the southeast sector of the city, where the US embassy and quarters of many US personnel are located. No Americans were injured. The rockets, believed to have been fired from the east bank of the Mekong north of the city, were launched when personnel were coming to or leaving work.

At Neak Luong the situation is serious and deteriorating. The communists have overrun two battalion-size units on the west bank opposite Neak Luong and now control the west bank from the South Vietnamese border to about eight miles southeast of the capital. Government forces defending the town itself are still under heavy pressure. The insurgents have reportedly occupied a portion of the airstrip and have breached the town's southeast defense perimeter. Control of Neak Luong is essential to any future use of the Mekong for river convoy operations. Its loss would have a serious impact on the army's willingness to continue the struggle elsewhere in the country.

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PORTUGAL

The leftist-dominated government extended its control over the nation's financial sector by following up its nationalization of the banking system with the takeover of the major insurance companies.

The nationalization of banking and the insurance companies is a major blow to the oligarchy which has dominated Portugal's economic life. The government will now have a strong hand in directing Portugal's business and industry by controlling access to financing and credit. Prime Minister Goncalves told the press, however, that these latest actions do not mean the end of private enterprise in Portugal.

The government also announced over the weekend that it is considering a request to give the Soviet merchant fleet use of refueling facilities on the island of Madeira. According to a government spokesman, the request came from a Portuguese transport company.

In an apparent effort to offset some of the negative criticism and to improve its international image, the newly formed Revolutionary Council issued a six-point policy statement on March 14. The statement gave assurances that:

--Portugal's international agreements and obligations will be respected.

--Persons and assets of all foreigners residing in Portugal will be protected in accordance with international conventions.

--Democratic rights and the election for the constituent assembly will be guaranteed by the Armed Forces Movement.

The statement declared that the Movement believed public disorders were used by reactionaries to create a climate favorable to the coup attempt and that such violence would be severely repressed in the future. It also called on the people and political parties to adhere to the Armed Forces Movement's program.

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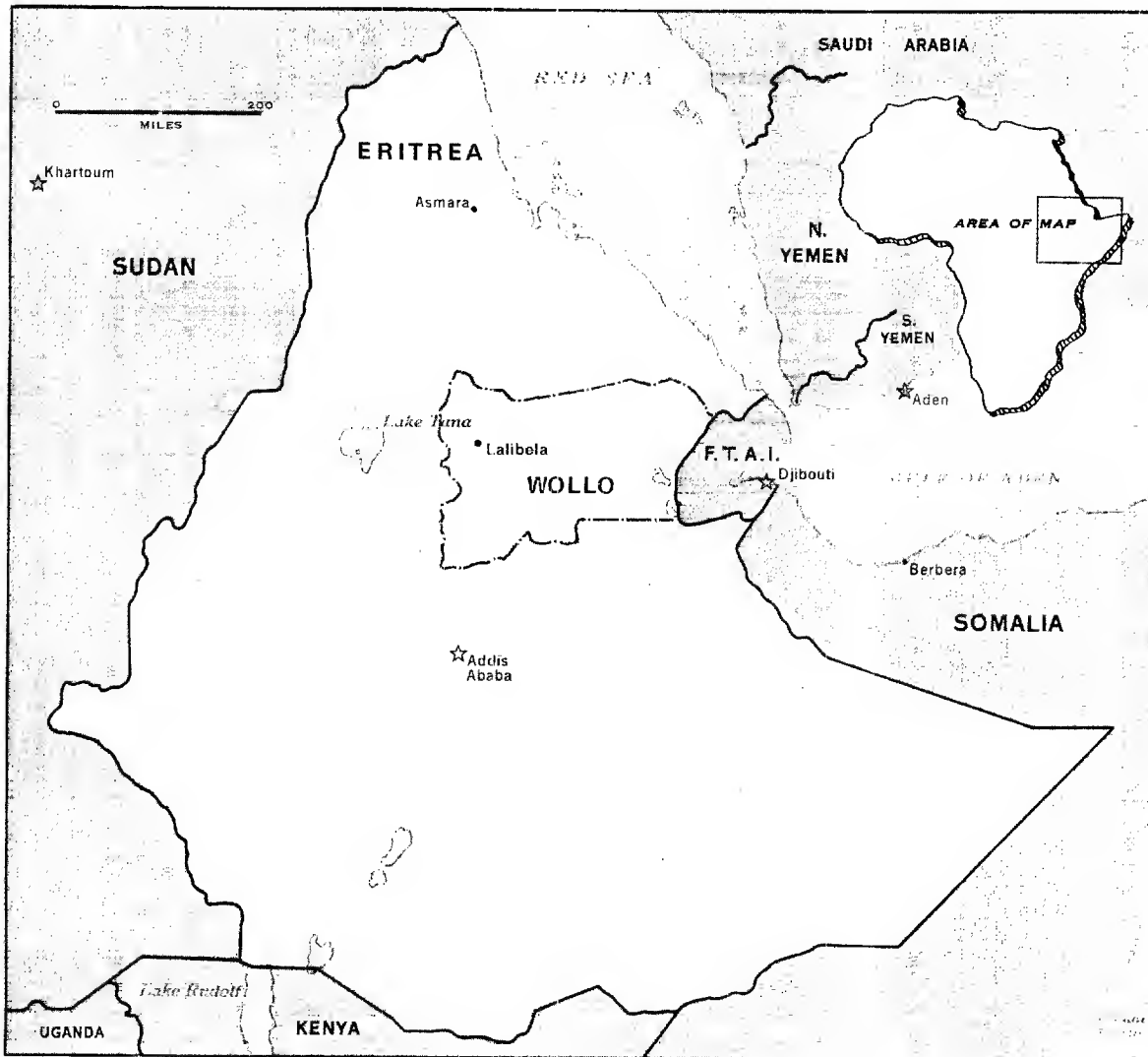
Rumors continued to circulate in Lisbon over the weekend that a reshuffle of the cabinet was imminent. Much of the speculation centered on the fate of Foreign Minister Soares, leader of the Socialist Party and one of two Socialists in the cabinet. It seemed likely that Soares would be eased out of the Foreign Ministry position and possibly designated minister without portfolio. The Socialists might also lose their second cabinet post because Prime Minister Goncalves seems bent on bringing a communist-front group into the government.

Meanwhile, a member of General Spínola's entourage, which was finally given asylum in Brazil, gave an explanation for the abortive coup. This version indicates that the rightist attempt was sparked by rumors that the extreme left had targeted rightist officers and civilians for assassination beginning the day after the ill-fated revolt. Although it might explain why the move appeared so poorly planned and coordinated, this story is discounted by moderate officers still in Portugal.

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# ETHIOPIA



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ETHIOPIA

An insurgent band, believed to be led by an aristocratic opponent of the ruling military council, on March 14 seized Lalibela, a town about 220 miles north of Addis Ababa.

The guerrillas first attacked and burned an Ethiopian Airlines plane that had just landed at the local airport, killing one airline official and seriously wounding another. They then dug trenches across the runway to prevent further landings and reportedly blocked the only road leading into the town. They may also have looted a local hotel.

A group of US citizens who were in Lalibela formed an automobile convoy and left the town on March 15, taking with them the wounded airline official. The journey to the next town could take several days. The insurgents had earlier agreed to allow the Americans to be evacuated by helicopter, but a helicopter sent by the airline was unable to accomplish this because of insufficient lift capacity.

The military council had been reluctant to allow the use of an air force helicopter, fearing an insurgent trap. Nevertheless, an air force helicopter has been sent to the area and may be used to complete the evacuation, once the convoy is a safe distance from Lalibela.



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INTERNATIONAL MONETARY - SAUDI ARABIA

The Saudi Arabian monetary agency revalued the riyal by more than 2 percent against the dollar Saturday and announced that the rate would be adjusted periodically to reflect changes in the dollar's rate vis-a-vis the International Monetary Fund's Special Drawing Rights (SDR). Qatar suspended foreign exchange trading Saturday while government officials discussed a revaluation, and Kuwait imposed a ban on dollar trading in reaction to uncertain market conditions.

The Saudi decision apparently stems from concern over the domestic inflationary impact of the dollar's decline. By severing the riyal's ties to the dollar and linking it to the SDR, which is valued on the basis of a group of 16 currencies, any further decline of the dollar relative to the major European currencies will have less effect on the domestic cost of goods imported from Europe. Iran made a similar move last month for the same reason.

It is possible that other OPEC countries will soon make similar decisions. Qatar may decide to link its currency to the SDR rather than the dollar as part of its decision to revalue. Coupled with the Saudi and Iranian decisions, this would create added pressure on other OPEC states in the area to follow suit.

None of these decisions would have any direct bearing on oil prices, which are quoted mainly in dollars. It is possible, however, that the moves will strengthen the positions of those OPEC members who want to break the oil price standstill agreement and return to a system of adjusting the dollar price of oil to reflect changes in the dollar's value relative to other major currencies. This type of system was used prior to the 1973 oil embargo to help insulate the value of OPEC's oil receipts from the effects of exchange rate movements.

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SOUTH AFRICA - RHODESIA

Prime Minister Vorster, in a conversation on March 12 with Ambassador Hurd, stressed his determination to press Rhodesian Prime Minister Smith toward a compromise settlement with Rhodesia's African nationalists. Vorster said he fears that a complete breakdown in the negotiations, presently stalled by the arrest last week of black Rhodesian leader Ndabaningi Sithole, would result in full-scale warfare between white Rhodesians and the black nationalists, who would then have increased foreign support.

Vorster also regards a Rhodesian settlement as a prerequisite for international acceptance of Pretoria's program of self-determination for Namibia and for his goal of normalizing relations between South Africa and the black states.

Vorster told the ambassador that he plans to meet with Smith soon to discuss the impasse created by Sithole's arrest. Press reports indicate that Smith arrived in South Africa over the weekend. Although Rhodesian authorities have accused Sithole of plotting to assassinate his rivals in the African National Council, the remaining council leaders have declared that they will not resume negotiations with Smith unless Sithole is freed. Vorster wants the matter resolved by April 7, when black African foreign ministers are scheduled to meet in Tanzania to review policies toward South Africa and Rhodesia.

Otherwise, Vorster fears Zambian President Kaunda and Tanzanian President Nyerere, who have tried to restrain impatient Rhodesian guerrillas since their leaders agreed to a truce with Smith last December, will have to support a resumption of the insurgency.

Rhodesian authorities are to hold a judicial hearing in camera on March 24 to determine whether the evidence against Sithole warrants continued detention without trial or criminal prosecution.

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[redacted]

Vorster's foreign minister told the South African parliament last week that any trial of Sithole should be in open court.

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[redacted]

Vorster's envoys told Smith last January that the South African police who have supported Rhodesian counterinsurgency operations would be gradually withdrawn, regardless of Smith's claim that they were still needed to counter truce violations. By early March, the South African police in Rhodesia reportedly had been reduced from some 1,600 to 700. Vorster, however, has not yet publicly revised his earlier statements that the police would remain until terrorism ceased, although Pretoria announced last week that they were confined to barracks.

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ARGENTINA

The political position of Argentine President Maria Estela Peron has weakened during the past two months.

The rift in Peronist party ranks was underscored last week when an assemblage of dissident left-wing Peronists in Buenos Aires formed the Authentic Peronist Party. This group, however, is more a political embarrassment than a threat to Mrs. Peron, and it will probably be outlawed.

On the other hand, growing strains within the Justicialist coalition that brought the Peronists to power may be harder to resolve. On March 12, the group headed by former president Arturo Frondizi issued its first public criticism of the government's economic policies. While there are no indications that Frondizi is ready to pull out of the coalition, a serious economic decline would probably force him and others to abandon the government, especially as the 1977 elections draw nearer.

A recent survey of army and navy officers has disclosed widespread dissatisfaction with Mrs. Peron's government. Contempt for her dependence on Minister of Social Welfare Lopez Rega reportedly has grown to the point where many officers would like to see her step down voluntarily.

There is no effort under way to persuade her to do so and none is anticipated, but the consensus among a cross section of officers surveyed is that Argentina would be better off with another president, especially if the military had a hand in the selection. This is a major shift from the military's attitude just a few months ago that there was no alternative to Mrs. Peron.

Renewed inflation and the prospect that it will grow are serious problems for military personnel, who are already finding it difficult to live on their salaries. The recent devaluation will hurt defense spending, especially the purchase of foreign materiel.

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The armed forces welcomed the government's tough stand against terrorism, but now many officers are upset by the failure to deal the terrorists a decisive blow. Their frustrations are reflected in growing criticism of their own leaders as well as of the government. The chief complaint voiced against the three service commanders is that they have gone along with the politicians' policies.

The armed forces' reluctance to take over the government again is the best guarantee of Mrs. Peron's serving out her term of office. If their dissatisfaction with the political leadership continues to grow, however, military leaders may begin to look for legal alternatives.

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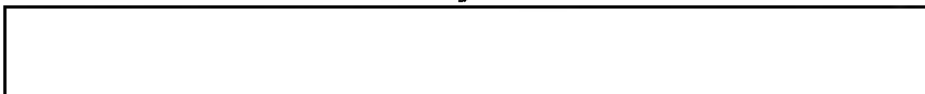


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FOR THE RECORD



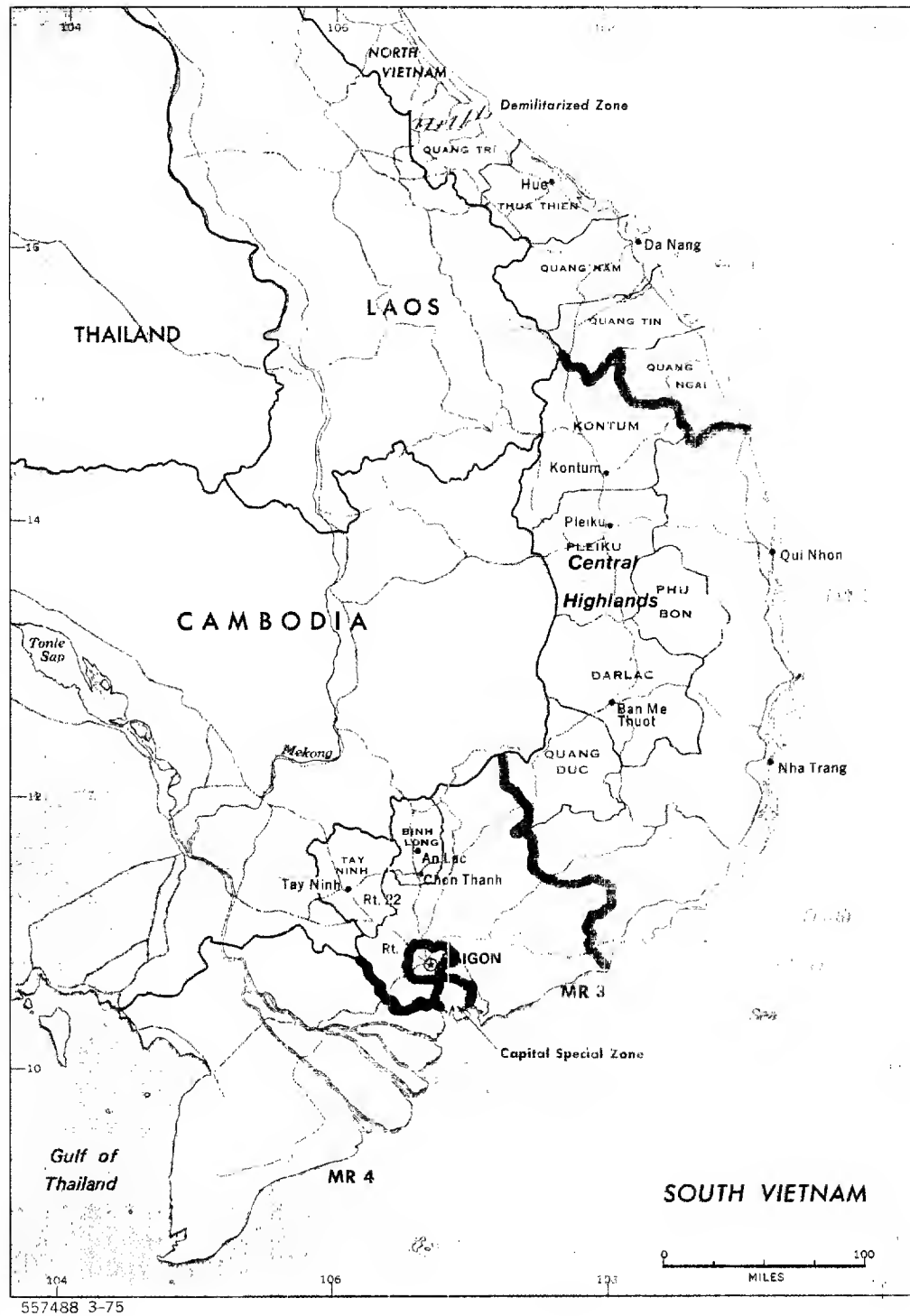
Hungary-USSR: Soviet General Secretary Brezhnev arrived in Hungary yesterday for the party congress opening today in Budapest. It is his first trip abroad since he went to Paris in early December. According to a Romanian diplomat, Brezhnev will speak at the congress to reaffirm Moscow's dedication to detente and press for an early conclusion of the European security conference. Most East European states are expected to be represented by their top party leaders. Romania and Yugoslavia, however, will send lesser ranking members of their leadership.



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## ANNEX

Appraisal of Situation in South Vietnam

*The following interagency intelligence assessment was prepared jointly on March 16 by the Central Intelligence Agency, the Defense Intelligence Agency, and the Bureau of Intelligence and Research, Department of State.*

At the beginning of the communist dry season campaign last December, the intelligence community concluded that Hanoi was prepared to increase military action in the South sharply, possibly including the commitment of part of its strategic forces in order to change the political and military balance in the South. We also concluded that the North probably would not launch an all-out offensive this spring using all or most of its strategic reserve, except in response to a major opportunity to achieve a quick victory. In the recent pattern of events in Indochina and in the US, particularly the US debates and actions on the question of aid, the North Vietnamese appear to have sensed just such an opportunity. Recent developments make it clear that the North Vietnamese already have increased their military activity and that Hanoi's leaders have decided to step up the level of military pressure even further in the weeks and months immediately ahead.

--During the past few months, recruitment and training have been sharply accelerated in the North, while large numbers of replacement troops continue to infiltrate to the South.

--In-country communist units have been shifting into areas which previously have seen little combat.

--Major elements of two North Vietnamese strategic reserve divisions have arrived in the South.

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--Communist propaganda has been taking an increasingly strident line regarding "US impotence" in Indochina.

Saigon's Response

Faced with stepped-up communist military action and the prospect of further escalation, President Thieu has decided in the past few days to adopt a new military posture. Heretofore, the GVN's approach to the war has been to contest the communists in most areas, launching preemptive attacks whenever possible and generally trying to regain lost territory. Under the new concept the government is withdrawing its forces from major portions of northern and central South Vietnam and now plans to concentrate them in the southern half of the country and around the large population centers along the north-central coast. The objective is to retain control over as much of the heavily populated and economically important areas of the country as possible, at the cost of virtually writing off the remainder.

The major countrywide communist attacks that have occurred since early March and the declining prospects for US military assistance are the principal factors contributing to Saigon's decision to reorder its priorities and change its military strategy. In recent weeks the South Vietnamese have been expending very large quantities of munitions in an attempt to meet the communists head-on, and President Thieu appears to have decided that they cannot continue to do so without seriously jeopardizing the GVN's ability to cope with communists over the longer term.

President Thieu's decision, in short, appears based on a recognition that--given the GVN's deteriorating logistic situation--the costs and risks of trying to defend all areas of the country would probably be prohibitive now. In Thieu's mind, a drastic consolidation of units and supplies appears to offer the best hope of containing communist attacks this dry season and of buying the additional time to prepare for another North Vietnamese campaign in 1976.

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[REDACTED]

General Truong has already issued orders for government troops to withdraw from two district towns in central Quang Ngai Province. He also plans to shift some of his remaining forces. Two brigades of the Marine Division will be transferred from north of Hue to the Da Nang area to replace the airborne troops. A substantially weaker force, including the newly activated Marine brigade and ranger group from MR 3, will be assigned the task of defending the northern approaches to Hue. The 1st Infantry Division will remain deployed to the west and south of Hue.

These redeployments will seriously weaken the government's position in MR 1 outside Da Nang, especially in view of recent shifts by North Vietnamese divisions in the Quang Tri - Thua Thien area. Large-scale communist attacks in this area are almost certain [REDACTED]

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In MR 2, Thieu's strategy concedes most of the central highlands to the communists. [REDACTED]

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Although President Thieu's decision can be explained in terms of military expedience, it nonetheless risks a psychological unraveling within ARVN that could seriously complicate an orderly consolidation of the GVN's military position. The permanent relocation of some South Vietnamese units away from their traditional areas of operation could impact sharply on the fighting esprit of soldiers in these units. The withdrawal from Kontum and Pleiku provinces is already causing serious morale problems among government troops there. We expect this is likely to be the case in other areas of the country as the scope and nature of Saigon's plans become known. The GVN still plans to have regional and territorial forces continue to defend some remote and expendable areas, but these irregulars cannot be expected to fight without close support from ARVN main force units. Moreover, President Thieu's military judgment is already being seriously questioned within the South Vietnamese military establishment.

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What Now?

President Thieu's decision to move to a defensive fallback position appears to put earlier communist military goals for 1975 in easy reach. It will also give Hanoi a wider range of opportunities and confront it with new decisions. We believe that Hanoi will move quickly to exploit the GVN's new vulnerability in the northern provinces. According to a recently captured prisoner [redacted] the communists already had been planning for a major move against Hue this dry season. Hanoi now has a far more realistic and less costly opportunity to take the city. The communists still have a large reserve of five combat infantry divisions north of the demilitarized zone, and we believe that if necessary Hanoi will commit some of this force to achieve the city's capture.

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The North Vietnamese will probably choose to bypass the strong government defenses around Da Nang, but they should be able to make significant gains in southern MR 1, including large parts of Quang Nam, Quang Tin, and Quang Ngai provinces. In the central highlands of MR 2, the North Vietnamese will soon occupy Pleiku and Kontum cities and should have little difficulty establishing control over the inland portions of the whole northern half of the region.

The South Vietnamese clearly intend to make an all-out effort at Ban Me Thuot. They are now assembling a large combat force to send back into Darlac Province to retake the town, which North Vietnamese troops now largely occupy. In the immediate area there may be the equivalent of two communist infantry divisions--possibly including elements of the NVA 316th Division from North Vietnam's strategic reserve. Government troops have taken up positions on the eastern edge of Ban Me Thuot, and reinforcements are moving toward the town. The government will begin its counterattack with the 23rd Division and two ranger groups, supported by air strikes, tanks, and artillery.

We believe that General Phu's estimate that the town can be retaken in about three weeks is overly optimistic, particularly in light of RVNAF's increasingly constrained mobility. The battle probably will be costly for both sides and apparently not be decisive.

Hanoi may view the developing battle for Ban Me Thuot as a good opportunity to inflict a crippling blow on ARVN--not only weakening its physical capabilities but, even more, jarring its morale and self-confidence. To achieve this objective, Hanoi may be prepared to commit substantial new forces to the fight. In any case, further substantial communist inroads are likely in Darlac and Phu Bon provinces, and the government's position in Quang Duc Province will probably be untenable. In May the weather begins to deteriorate and this should slow the fighting in this area.

The coming fighting in the South Vietnamese heartland of MRs 3 and 4 will provide the most critical test for President Thieu's fallback strategy and also shed

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light on the extent to which Hanoi is now prepared to push its military campaign. The communists can be expected to apply intermittent pressure in the delta and seize some additional territory in the outlying reaches of MR 3. The GVN is already preparing to abandon An Loc, the isolated and vulnerable capital of Binh Long Province, and Chon Thanh--its only other enclave in Binh Long Province.

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Thus far the communist effort has been directed at isolating Tay Ninh Province from resupply and reinforcement. The communists, supported by tanks and heavy artillery, have mounted large-scale attacks on government positions along Routes 1 and 22 in the southern part of the province and have also kept heavy pressure on South Vietnamese outposts on the eastern and western borders of Tay Ninh. Saigon, however, has indicated that it will fight hard to hold on to Tay Ninh City and its surrounding area, and the communists thus far have refrained from making a frontal assault. The government appears to have the advantage in troop strength and firepower in this area, and the arrival of the Airborne Division from MR 1 will add to this edge. Moreover, time is also a factor in this area. In another two months or so, deteriorating weather conditions in MR 3 will begin to limit large-scale military operations. If the communists choose to make an all-out effort to break the back of the GVN's strong defensive position in MR 3, they will have to make a quick decision to bring additional reinforcements into the area.

As indicated above, President Thieu's new strategy and the likely consequences of fighting this spring will give the communists substantial territorial gains. In addition, there will clearly be some expansion of the population under communist control in South Vietnam as a result of this spring's campaign. The North Vietnamese and Viet Cong now have meaningful control over about one million of South Vietnam's total population--roughly 22 million. Even allowing for a substantial flow of refugees to the GVN side, the territorial gains which the communists are likely to make in the next few months could easily double the number of people under their control.

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Economic Impact

Although the GVN's new posture will have serious economic consequences, these should be manageable--at least in the short term. Most of the territory which will be lost, though potentially important to economic development, has not provided significant resources to other areas of South Vietnam for some time. The most immediate problem will be a sharp rise in the number of refugees, many of whom will have to be supported from public funds and stocks. The size of this problem depends on how much territory the GVN loses along its moderately populated northern coastline. Coming off a good rice harvest, the GVN has large food supplies that can be moved quickly to the deficit areas; and even with urban income depressed, traditional family sharing and private charity will provide considerable support.

More important than the direct economic consequences in MRs 1 and 2, however, will be the psychological impact on businessmen and consumers in GVN strongholds farther south. The absence of large-scale commodity or currency speculation in 1972 was an important plus for the GVN. Although the markets have reflected no significant response to military reverses so far this year, it is too soon to predict how they will behave in coming weeks. Prices for key goods and black market exchange rates, however, will be important indices of popular confidence in the weeks to come.

The Outlook

The leaders in North Vietnam will view Thieu's moves as a clear sign of weakness. They may decide to follow a conservative course and digest the substantial gains afforded by the South Vietnamese fallback strategy without running the risks inherent in a strike for total victory. Hanoi, however, may decide that very heavy pressure now--particularly if Cambodia collapses or if the US Congress curtails or cuts off further aid to South Vietnam--would deal the ARVN and GVN's confidence and will to resist an irreparably shattering blow.

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Our net judgment of the most likely course of events over the next several months hinges on psychological imponderables. A mood of defeatism in South Vietnam--produced by GVN reverses, communist gains, dwindling supplies, South Vietnamese perceptions of US behavior, or any combination of such factors--could become infectious and rapidly self-confirming. We believe that there is a good chance that South Vietnam, its government, and its army can avoid this kind of attitudinal collapse unless the South Vietnamese see a major change in US assistance policies. Barring such a psychological collapse, we believe that the GVN will survive the communist dry season campaign still in control of most of the heavily populated and economically important areas of the country, essentially the southern third of South Vietnam and portions of the north-central coast, including the major cities of Da Nang, Qui Nhon, and Nha Trang. This will be at a heavy cost in supplies and materiel so that the communists will be in an even stronger position for subsequent fighting than we estimated last December.

At best the results of this year's campaign are bound to contribute to popular frustration and war weariness within GVN areas and will fuel public and private criticism of Thieu. For the time being, we see little prospect of new negotiations between the GVN and the communists. The communist military and political position in the South will have been substantially strengthened, and Hanoi will have more reason than ever to stick to its demand that Thieu step aside and allow the formation of a coalition government before the fighting can stop.

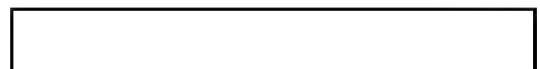


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